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BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of  
Southwestern Bell Telephone Company  
Tariff F.C.C. No. 73

)  
) Transmittal Nos.  
) 2433 and 2449  
) CC Docket No. 95-140

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DIRECT CASE OF  
SOUTHWESTERN BELL TELEPHONE COMPANY

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## SUMMARY<sup>\*</sup>

SWBT's RFP tariff filing (SWBT's Transmittal Nos. 2433 and 2449) was filed in response to RFPs issued to SWBT by MCI. SWBT has been forced to use this methodology to respond to competition in order to attempt to keep the business that SWBT's customers have been taking to SWBT's competitors. In the RFPs that caused the RFP tariff filing, SWBT lost the business to another vendor while the SWBT filings were being considered by the Commission.

These facts underscore the basis for SWBT's need for an RFP tariff filing section. SWBT must be prepared to act quickly and decisively in responding to customer's RFPs. Verification requirements, or arbitrary standards for what constitutes "competition" would stifle competitive bid situations and would not be in the public interest.

SWBT's Direct Case shows that the Commission's prior orders on pricing flexibility require SWBT and other LECs to show that competition exists in order to obtain additional pricing flexibility. SWBT has carefully crafted its RFP offering to ask for no more pricing flexibility than is necessary to respond to the competition. For each competitive instance to be filed under the tariff, as in Transmittal No. 2433, the Commission will be able to review SWBT's filing to determine that, in fact, it is appropriately tailored to meet the competitive threat faced by

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<sup>\*</sup> All abbreviations used herein are referenced within the text.

SWBT. As such, it is consistent with the Commission's prior policies on zone density pricing and volume and term discounts.

SWBT also shows herein that the competitive necessity test is clearly met by the facts facing SWBT. The competitive necessity test should be used in this case as it would allow SWBT to offer the benefits of its RFP tariff filing process to customers. Without using the competitive necessity guidelines, or other appropriate reasoning, the Bureau would deny the benefits of SWBT's RFP process to the public. This denial will assist SWBT's competitors, but would not be in the public interest.

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 ) CC Docket No. 95-140

**DIRECT CASE OF SOUTHWESTERN BELL TELEPHONE COMPANY**

Southwestern Bell Telephone Company (SWBT), pursuant to the Order Designating Issues for Investigation<sup>1</sup> hereby files its Direct Case. SWBT's responses to the inquiries posed by the Common Carrier Bureau (Bureau) fully demonstrate that SWBT's Transmittal Nos. 2433 and 2449 should not be suspended and should be allowed to take effect immediately.

I. INTRODUCTION

When consumers make purchases, especially ones of significant cost, they look for the best value. Value is usually described in terms of quality and price. Consumers want a quality product (a reliable product) of high value (the most features at the best price/performance). Consumers often search for the best value by asking vendors of comparable products to make a proposal. Vendors present their "best offers" and the customer selects the product that best meets its needs at a price they are willing to pay.

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<sup>1</sup> Southwestern Bell Telephone Company Tariff F.C.C. No. 73, Transmittal Nos. 2433 and 2449, CC Docket No. 95-140, Order Designating Issues for Investigation (Com. Car. Bur., released August 25, 1995) (DA 95-1867) (RFP Tariff Designation Order).

Increasingly, access customers are choosing to do business in the same manner. Access customers are now routinely issuing Requests for Proposals (RFPs) for their telecommunications needs.<sup>2</sup> When issuing an RFP, the prospective customer is communicating to vendors that it is looking for a custom offering (i.e., individual service configurations, terms, conditions, etc.) tailored to meet their specific needs. Prospective vendors evaluate the RFP, design a service that they determine best meets the customer's needs and then determine a price for the service based on perceived customer expectations and general market intelligence. The vendor then combines this information into a proposal that is submitted to the customer for evaluation. Upon receipt of the various proposals, the customer evaluates each one and selects the vendor of choice. The successful vendor is generally the one who offered the service that best meets the customer's requirements with the highest quality and the lowest price.

The instant proceeding is an example of the RFP process that is becoming so prevalent in the telecommunications industry. MCI issued RFPs for certain telecommunications requirements. SWBT, among other vendors, responded with custom proposals. MCI evaluated these proposals and selected a vendor that best met their needs. In this case, MCI picked a vendor other than SWBT. Because SWBT competes with firms who are, for the most part, unregulated,

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<sup>2</sup> See, Competition in the Interstate Interexchange Marketplace, 5 FCC Rcd 2627 (1990).

regulatory restrictions most assuredly played a part in MCI's purchasing decision. As SWBT is required to offer this service to other similarly situated customers, SWBT continues to seek approval of the offering.

The RFP process is competition in the purest form, one that produces a market-based outcome that incents vendors to be efficient and that maximizes consumer benefit. Asymmetrical regulation, however, short circuits this process damaging customers, suppliers and competition.

SWBT should be allowed to participate in competitive markets under the terms dictated by customers. Further, SWBT should be allowed to respond to customer RFPs without being subject to market loss quotas, floors on the number of respondents or other "set aside" mechanisms. These mechanisms handicap SWBT in the marketplace, directly harm SWBT, and contrary to the competitive necessity doctrine, deny consumers the benefits of competition.

SWBT's Transmittals Nos. 2433 and 2449 constitute a reasonable response to the competition facing SWBT in various segments of its markets. These transmittals reflect a limited response that makes the marketplace more, not less, competitive. As such, SWBT's instant filings should not be suspended and should be allowed to take effect immediately.

The action taken by SWBT is an appropriately limited response to a competitive case.<sup>3</sup> It is not necessary for the

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<sup>3</sup> The use of competitive necessity involves a case-by-case approach. A better approach for the long term would be to evaluate  
(continued...)

Commission to rule that SWBT must be allowed to initiate an unlimited number of RFP tariff-type filings in the future. In the instant transmittals, SWBT has shown that there is competition for SWBT's services and that SWBT's limited response is reasonable. As other competitive situations occur, SWBT would file the necessary tariff modifications to respond appropriately to a specific case. The Bureau would, in each case, then have the opportunity to determine whether the competition facing SWBT justifies the response. Since SWBT would have to make these additional filings, it is unnecessary for the Bureau to determine at this time whether future filings by SWBT in response to competition are warranted. SWBT has shown, and further demonstrates in this Direct Case, that Transmittal Nos. 2433 and 2449 were, and are, a proper response to the competition facing SWBT in each situation.

## II. INFORMATION REQUIREMENT REGARDING TARIFF LANGUAGE

### A. Paragraph 7a

The RFP Tariff Designation Order Requires That:

SWBT must state how it defines, and what standards it will use to determine what constitutes, a "competitive bid situation." In this context, SWBT must state whether it would independently verify whether a customer or potential customer in fact requested other competitive bids, whether a competitor in fact responded to such requests, and the terms of the competitor's offer. SWBT must also address whether, if no other party responded to an RFP, such circumstances would constitute a

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<sup>3</sup>(...continued)  
competition on a market area basis and grant pricing flexibility commensurate with the competitiveness of each market. However, until the rules are changed, competitive necessity is one of the lawful methods that SWBT can use to respond to these situations.



"competitive bid situation." SWBT must also comment on whether the existence of an outstanding bid from a competitor, in and of itself, regardless of the market share of that competitor, or the number of competitors in the relevant area as a whole, constitutes a "competitive bid situation."

A competitive bid situation begins with a process whereby a customer sends out formal Requests for Proposals (RFPs) for the purpose of soliciting bids for the provisioning of a particular project. The vendors (e.g., SWBT) who receive an RFP are requested to respond by a certain date with a "competitive" proposal. All proposals received are usually treated as confidential. The selection is usually based on a combination of pricing, timing, strategic and operational factors.

There is no need to create standards for a competitive bid situation. The process for bidding, as described above, is already in place and is recognized and used industry wide. Even if SWBT could change the existing RFP procedures for competitive bidding, there is no need to do so.

SWBT does not have the ability to verify information regarding other RFPs. Information on the number of bids requested, whether or not any other competitive bids were received, and the terms of the competitive proposals, is usually kept confidential by the customer sending out the RFPs. Giving competitors access to confidential bidding information would contaminate the process.

SWBT cannot generally determine, nor should customers be required in competitive bid situations to disclose, the existence of other bidders. All SWBT can do is to verify that the customer is aware of the conditions imposed by the tariff. In fact, if the

customer is required to disclose any information (besides the simple acknowledgement that the RFP was issued to more than one bidder)<sup>4</sup> the process is contaminated. Customers would have to choose whether to include SWBT as a bidder or perhaps change the way they handle their RFPs.

In the requests for proposals that MCI issued that caused SWBT to make the instant filings, MCI implied that other vendors were participating, but would not reveal details to SWBT. SWBT's only real confirmation that other bidders had participated was received when SWBT was notified that it had lost the business to another vendor. In the usual case, RFPs are issued with deadlines that do not permit the research necessary to determine if other bidders were participating, even assuming, arguendo, that such a determination could and should be made.<sup>5</sup>

Thus, the questions in this section of the Direct Case that ask whether SWBT would verify whether other bidders are participating, their terms, and whether a competitive situation would exist if no other party responded to an RFP, are not relevant to the competitive facts facing SWBT. It is impractical for SWBT to undertake independent research to determine whether the customer

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<sup>4</sup> As discussed later in this direct case, SWBT's tariff explicitly requires a "competitive situation" for a customer to avail themselves of SWBT's RFP tariff. By definition, a competitive situation means invitations to bid are given to more than one supplier. SWBT intends to add tariff language to clarify that this meaning of "competitive situation" applies.

<sup>5</sup> In addition to a customer's understandable reluctance to share competitive information, potential bidders are likely to keep their participation a secret until the deadline to keep the competition off guard.

is receiving bids from other vendors, and what those terms are, before it is required by the marketplace to make an RFP filing.

The existence of the RFP itself, whether or not other vendors choose to participate, constitutes a competitive bid situation. To determine otherwise would be to presume that SWBT's customers would make a charade of an RFP in order to obtain favorable pricing from SWBT. SWBT has done what it can to assure that no such behavior takes place through the terms and conditions of its tariff. Complete assurance, however, is only possible in the face of a regulatory requirement that customers share sensitive information with competitors. Any such requirement, however, is antithetical to the competitive process, and would harm competition.<sup>6</sup> Thus, it must be presumed that customers' RFPs are legitimate.

SWBT intended "competitive bid situation" to mean that the customer has requested bids from at least one other vendor. SWBT is developing additional language to file to clarify for customers that a "competitive bid situation" means that the customer has sent the RFP to at least one other vendor. SWBT will file this language at the Bureau's direction.

In regard to whether "the existence of an outstanding bid from a competitor" is enough to constitute a "competitive bid situation," the answer must be "Yes." The existence of a bid from

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<sup>6</sup> See fn. 10, infra.

a "competitor" indicates without question that the customer has a choice, which is the definition of a competitive situation.<sup>7</sup>

SWBT should not have to determine the number of bidders and their market shares. Effective competition does not hinge on having many suppliers in a particular market. Nor is the size of each participant's market share relevant to a specific purchasing decision. This RFP case is a prime example. In the instant case, SWBT lost the RFP to a provider whose market share is presumably small. Any policy that sets a "quota" on market share loss or on the number of bidders required before the LECs are allowed to respond to competitive bids is contrary to the public interest, and offends SWBT's rights under applicable law.

B. Paragraph 7b

The RFP Tariff Designation Order Requires That:

SWBT must explain how it will determine what constitutes a bona fide RFP, and whether and how its discretion to determine a bona fide RFP would be limited.

SWBT will examine RFPs on their face to determine whether they qualify for the treatment described in the tariff pages. As stated in Section 29.2 of SWBT's Transmittals, "[c]ustomers must indicate in their RFP that the request involves a competitive situation in order to avail themselves of SWBT's application-specific rates." As noted earlier, SWBT will clarify this section to assure that customers understand "competitive situation" to mean

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<sup>7</sup> It should also be noted that to the extent SWBT's competitors file tariffs of their own with the Commission, these tariffs can possibly verify the existence of competitive alternatives.

that multiple vendors have been invited to bid. If the RFP on its face meets this criteria, it will qualify.

C. Paragraph 7c

The RFP Tariff Designation Order Requires That:

SWBT must address whether it intends to limit the access services available under the tariff to the specific services proposed in Section 29.3 ? If not, SWBT must specifically identify what access services may be offered in response to an RFP.

The access services available under the RFP tariff are currently limited to those that were contained in SWBT's Transmittal No. 2433. SWBT does not intend to specifically limit the access services that may be made available under this section of the tariff in the future. The access services that will be made available will depend upon the services that are requested on a competitive bid basis by customers in the future.

D. Paragraph 7d

The RFP Tariff Designation Order Requires That:

SWBT must identify the restrictions on the general availability of discounted services to be offered by SWBT and explain why any such restrictions on availability are reasonable. Such restrictions might include, but are not limited to, restrictions based on geography, type of customer, and type of service.

The restrictions that may be placed on the general availability of the services to be offered by SWBT under this section of the tariff will depend upon the services requested by customers. In the currently filed tariff pages, SWBT filed a rate for "8 DS3s between two customer premises each served by the Jackson Central Office in Topeka, Kansas," and "15 DS3s between a customer premises served out of the Chestnut Central Office,

St. Louis, Missouri, and a customer premises served from the Ladue Central Office in Ladue, Missouri." As stated, these services are designated in a certain geographical area, but are not limited to a type of customer. The type of service is specifically designated. For the type of service, and at the central offices in question, there is no restriction on the general availability of these discounted services to customers that can take advantage of these services, as long as the customers submit an RFP requesting the same services.

The Commission has long recognized that customer type and service type may indeed distinguish services and therefore warrant availability restrictions. In addition, through its long-standing use of the study area concepts, the Commission has demonstrated that geography may also distinguish services and therefore warrant availability restrictions. The Commission recently refined this concept in its adoption of zone density pricing (ZDP) in recognition that cost characteristics may indeed vary across geographic areas much smaller (i.e., wire centers) than the existing study area. In implementing ZDP, the Commission recognized that there can be multiple prices for "like" services without finding the resulting rates, terms or conditions to be unlawful (i.e., unjust or unreasonable because of differences in charges, practices, classifications, regulations facilities, or services premised on personage, class of personage, or locality).

### III. INFORMATION REQUIREMENT REGARDING PRICING FLEXIBILITY

#### A. Paragraph 11a

##### The RFP Tariff Designation Order Requires That:

SWBT must explain why its RFP tariff is not an attempt to circumvent the zone density pricing and volume and term discount policies established by the Commission in prior Orders, and why its tariff is consistent with those policies. In this regard, SWBT must either explain why the RFP tariff is consistent with the Commission's statements that it would not grant LECs broader pricing flexibility for special access and switched transport, such as individualized pricing in response to competitors' offerings, at this time, or why it is reasonable, and in the public interest, to grant SWBT greater pricing flexibility than is currently permitted under the Commission's existing zone density pricing and volume and term discount pricing policies.

The RFP tariff does not circumvent the theories inherent in the Commission's zone density pricing and volume and term discount policies. While the language from 1992 cited by the RFP Tariff Designation Order states that LECs would not be granted broader pricing flexibility at that time, this language explicitly states that the Commission "recognize[s] that additional pricing flexibility may well be justified as competition develops" and that the Commission "reserve[d] the question of broader pricing and rate structure flexibility for future proceedings."<sup>8</sup> The 1993 and 1994 citations are consistent with this quote. As "competition has developed," justifying "broader pricing and rate structure flexibility," SWBT's approach is totally consistent with the cited paragraphs.

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<sup>8</sup> Expanded Interconnection with Local Telephone Company Facilities, 7 FCC Rcd 7369 (1992) at para. 186. (First R&O).

RFP rates produce prices that are highly cost based, more so than zone density pricing. Although zone density pricing represents a refinement over study area based pricing, it is still premised on a high degree of rate averaging.<sup>9</sup>

In contrast, RFP rates are based on the specific cost to provide a specific service at a specific location. Thus, rates depend solely on true costs, not averages. In addition, the RFP process affords each vendor the opportunity to make a competitive proposal to win the business. Because each has only limited intelligence as to what the other might charge, each is encouraged to make its "best offer."<sup>10</sup> This provides the best mechanism for moving all rates toward costs which is vastly superior to zone density pricing. Because RFP pricing moves rates toward costs quickly, maximum consumer benefit is realized.

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<sup>9</sup> In particular, we will allow LECs with operational expanded interconnection offerings to implement a system of traffic-density-related zones to bring special access rates more in line with costs. We will continue to require that rates for special access services subject to competition be averaged within each zones, but we will permit rates for such services to differ between zones.

First R&O, at para. 179.

<sup>10</sup> This process is consistent with the Commission's conclusions in the AT&T RCI Order where it concluded that requiring customers to disclose competitive offers was anticompetitive and not in the public interest. (AT&T Communications Tariff F.C.C. No. 15, Competitive Pricing Plan No. 2 Resort Condominiums International, 6 FCC Rcd 7005 (1991).) (AT&T RCI Order). No such information flow occurs in the RFP process contemplated by SWBT's Transmittals that might injure the competitive process and thus be anticompetitive.



The paragraphs cited by the RFP Tariff Designation Order acknowledges that zone pricing is not and was not intended to be full pricing flexibility. Zone offices were established based on cost-related characteristics (traffic density) and in some cases geographic contiguity. On the contrary, customers select their access vendors on marketplace conditions that are not related to a LEC's wire center density characteristics. Thus, the RFP tariff process better matches the customer's desire for greater competition and thus better serves the public interest than zone density pricing alone.

With regard to volume and term discounts, the Commission essentially imposed a market loss "quota" on the LECs before they would be allowed to offer volume and term discounts on switched transport.<sup>11</sup> Since the services in the instant case are not switched transport services, this "quota" is not applicable. In addition, the Commission delegated to the Common Carrier Bureau the authority to act on requests for waivers when specific characteristics of a market warrant deviation from its rule. As SWBT has demonstrated in this case that expanded interconnection is not a precondition for competition, this case would also present a sound basis for waiver of this rule had the services in question been switched transport services.

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<sup>11</sup> The Commission required LECs to have 100 DS1 switched cross-connects in zone 1 offices or an average of 25 DS1 cross-connects in each zone 1 office before LECs would be allowed volume and term discounts on switched transport. Expanded Interconnection with Local Telephone Company Facilities Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board 8 FCC Rcd 7374 (1993) at para. 118.

B. Paragraph 11b

The RFP Tariff Designation Order Requires That:

SWBT must explain why it is reasonable to conclude that an RFP's existence establishes competition sufficient to justify pricing flexibility when SWBT may not have met the expanded interconnection proceeding's competition requirements for zone density pricing or volume and term discounts.\_

The existence of an RFP under the terms established in SWBT's tariff (that the customer indicate that a competitive situation exists) is sufficient to justify that SWBT be given the ability to make a competitive response.<sup>12</sup> At the customer's own indication, it is clear that alternatives to SWBT's service exists and that the customer is willing to adopt the alternative that best suits its needs in terms of service and price. In effect, to deny SWBT the ability to respond to a competitive bid situation is tantamount to the Commission awarding the business to one of SWBT's competitors. The effect for customers may be particularly perverse if the absence of a competitive response from SWBT results in other responses being "less than best."

Competition exists without expanded interconnection. For example, SWBT lost the Topeka RFP without expanded interconnection being used in the Topeka area. In Dallas, SWBT has already lost 37.1% of the high capacity market with expanded interconnection.

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<sup>12</sup> An RFP's existence establishes competition sufficient to justify pricing flexibility since it may be the only firm warning SWBT receives from a customer that SWBT is about to lose that customer's business. In the instances that led to the filings at issue here, SWBT received the RFPs, responded to them, but the customer selected another vendor while SWBT's filings were pending at the Commission.

In Houston, 30.5% of the high capacity market has already been lost with more leaving SWBT's network each month. The current marketplace offers plenty of routes and locations where customers can use or select multiple suppliers, regardless of the status of zone density pricing and interconnection. SWBT must be allowed to compete for this business. Zone density pricing and volume and term pricing plans associated with the zone density pricing plan do not currently allow SWBT to effectively compete in these situations.

C. Paragraph 11c

The RFP Tariff Designation Order Requires That:

SWBT must state whether and how RFP rates conform to the cost based pricing policies inherent in zone density pricing.

SWBT's responses to the previous two questions show how SWBT's RFP rates are consistent with the Commission's cost-based pricing policies.

IV. INFORMATION REQUIREMENT REGARDING COMPETITIVE NECESSITY.

Paragraph 14 asks SWBT to explain why the Bureau should apply the three part competitive necessity test to it and why SWBT meets the three criteria of the test. In response, SWBT incorporates by reference its Comments of March 24, 1995, in particular pp. 2-4, as well as the D&J for Transmittal No. 2433, in particular at Section 1.5. These filings, as well as the materials herein, show that SWBT meets the competitive necessity guidelines. The public interest benefits from SWBT's Transmittals will not be

gained unless the Bureau uses the competitive necessity guidelines or other applicable reasoning.

A. Paragraph 15a

The RFP Tariff Designation Order asks:

Whether the services to be provided pursuant to SWBT's responses to requests for proposals are "like" existing services offered by SWBT; and if so, whether there is a discriminatory price difference between the rates charged to customers under the "competitive response" situation and those charged to other customers.

SWBT does not contest that the services provided under SWBT's Transmittal No. 2433 are "like" other services offered by SWBT. SWBT does not contest that there is a reasonably discriminatory price difference under this section of the tariff and the rates charged to others under other sections of the tariff. Reasonable price differences are the natural result of a competitive market. The existence of alternate supply guarantees that SWBT's prices will be reasonable. Likewise, SWBT's ability to respond to RFPs will institute pricing discipline on competitors.

B. Paragraph 15b

The RFP Tariff Designation Order asks:

Why competitive necessity justifies participation in a competitive bidding situation. SWBT's comments must include, but need not be limited to:

- i. an explanation of why it is appropriate to use the defense of competitive necessity to justify action (participation in the bidding process) that would be taken before the existence of a specific offer from a competing provider; and
- ii. an explanation of how in a competitive bidding situation an offer by SWBT could be reasonably designed to meet competition without undue discrimination.

This question asks "why competitive necessity justifies participation in a competitive bidding situation." SWBT interprets this portion of the request to ask why "competition" justifies participation in a "competitive bidding situation." If SWBT does not "compete" in a competitive bidding situation, the business will be lost before SWBT has a chance to compete for it. SWBT, like any other reasonable carrier, desires all business that will allow it to provide margins that contribute to overheads, and is willing to compete for such business.

Given a scenario where SWBT is restricted to published average prices, while competitors are allowed pricing flexibility, competitors can simply look up SWBT's average prices and simply bid a sufficient amount lower to win the business. As a result, SWBT is completely "shut out" of the RFP process and customers do not receive the lower prices that would have been available to them from SWBT (or the competitors) had SWBT been allowed to fully compete in the RFP process.

As stated previously, it is appropriate for SWBT to participate in a bidding process on the basis of a representation by the customer that competitive alternatives exist. The competitive RFP process is self-regulating and prevents undue discrimination. Each vendor, operating on the information available, makes the bid it thinks will "win" the RFP. In highly competitive markets, prices will tend to be lower (consistent with unregulated competitive markets). If competition is limited (or perhaps nonexistent) prices will tend to be close (if not

identical) to averaged tariff rates. Thus, undue discrimination is avoided by the RFP process itself.

In a competitive bidding situation, SWBT's offers, as they were in this case, would be reasonably designed to meet competition without undue discrimination. SWBT cannot be held to a higher standard.

C. Paragraph 15c

The RFP Tariff Designation Order asks:

Why a customer's release of a RFP constitutes a showing of the general availability of an equal or lower priced competitive offering to the customer. In this connection, SWBT must comment on whether there should be verification requirements as to the terms of the competitors' offerings and as to their general availability to the competitors' customers.

The customer's release of an RFP, as previously stated, is likely to be SWBT's best, and perhaps only, warning that a customer is about to take its business to a competitor. SWBT assumes that the competing carrier will be subject to the same constraints under Title 2 of the Communications Act as SWBT, making the competing offer "generally available." Any further verification requirements would conflict with the need for bidders to respond quickly and with the AT&T RCI Order referenced earlier.

D. Paragraph 15d

The RFP Tariff Designation Order asks:

How discounted rates offered in response to a RFP will contribute to reasonable rates and efficient services for all users.

The RFP process will enhance the competitive process in access markets and help support universal service goals. A

regulated rate may be acceptable to customers with no alternatives, but customers who have alternatives at their disposal may construct their own networks, or switch to an alternative vendor's service, unless a competitive discount is provided. In order to retain these customers, the LEC may need to offer a reduced price to selected customers, or lose their business. Since this reduced rate would be at or above the incremental cost, some contribution to the firm's overhead is still made with these sales. To meet competition, it is better to collect some contribution to overhead than none at all, even if the contribution collected is not the average amount normally included in rates. The inability to discount rates and retain some contribution from large customers puts increasing upward pressures on other LEC access services and on LEC local service rates.<sup>13</sup>

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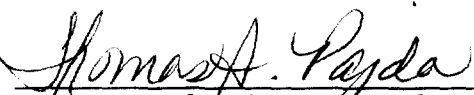
<sup>13</sup> See, Alfred E. Kahn, The Road to More Intelligent Telephone Pricing, 1 Yale J. on Reg. 139, 152 (1984) ([I]f big users have an escape from economically excessive charges, a [Bell Operating Company] will have no choice but to reduce rates to them if they are to make any contribution to the access costs which the small users would otherwise have to pay by themselves.

V. CONCLUSION

For the foregoing reasons, SWBT respectfully requests that the Commission lift the suspension on SWBT's Transmittal Nos. 2433 and 2449 and immediately allow these transmittals to take effect.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

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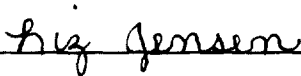
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September 11, 1995



**CERTIFICATE OF SERVICE**

I, Liz Jensen, hereby certify that the foregoing  
Direct Case of Southwestern Bell Telephone Company in  
Transmittal Nos. 2433 and 2499, have been served this 11th  
day of September, 1995 to the Parties of Record.

  
\_\_\_\_\_  
Liz Jensen

September 11, 1995